

MINIMISING BUSINESS RISKS THROUGH ETHICAL MANAGEMENT PRACTISES

THE NEED

Organisations are becoming increasingly active in pursuing socially responsible business practices to mitigate a wide range of business risks.

At the basis of corporate evolution, the fundamental driving force for commercial entities was to essentially be profitable and grow (economic success). Maintaining happy customers and market growth through quality products and services was paramount to corporate success. A multitude of quality management system certifications flourished in the race for improvement and to demonstrate a credible position.

This was subsequently supported by a second pillar to corporate success; the need for organisations to minimize the impact of their operations on the environment. A plethora of environmental management system certification and verification regimes were established to monitor conformance to the objectives of reduced environmental impacts. Greenhouse gases, Kyoto protocol and global warming are ubiquitous in today's media; demonstrating heightened environmental concern.

Progressive corporate entities realize that although the economic and environmental driving forces are critical to their success, they alone are not sufficient to ensure sustainable performance. There are substantial business risks which fall under the social ethics category and sustainable business performance depends on the inclusion of these aspects in the overall corporate risk management process. This is the principle of triple bottom-line sustainability (Diagram 1).

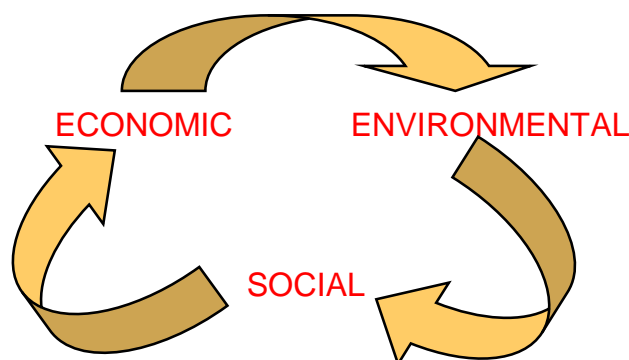
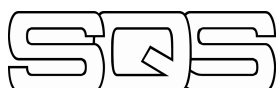


Diagram 1 Triple bottom-line sustainability



BUSINESS RISKS

The business risks associated with economic and environmental factors are relatively easy to comprehend. So what are the business risks and consequences associated with social principles? Diagram 2 illustrates some of these risks and their potential consequences. It is not difficult to comprehend the potential damage such consequences would have on a corporate entity. Numerous instances of corporate transgressions in social responsibilities are readily made public and transparent through the media. Browsing the internet will yield dozens of examples.

Among others, the likely impact of such exposure could include:

- damaged corporate reputation
- brand devaluation
- consumer boycott
- negative investor perceptions
- legal action
- fines and in some jurisdictions jail terms for directors

All of which have a detrimental affect on an organisation's sustainability

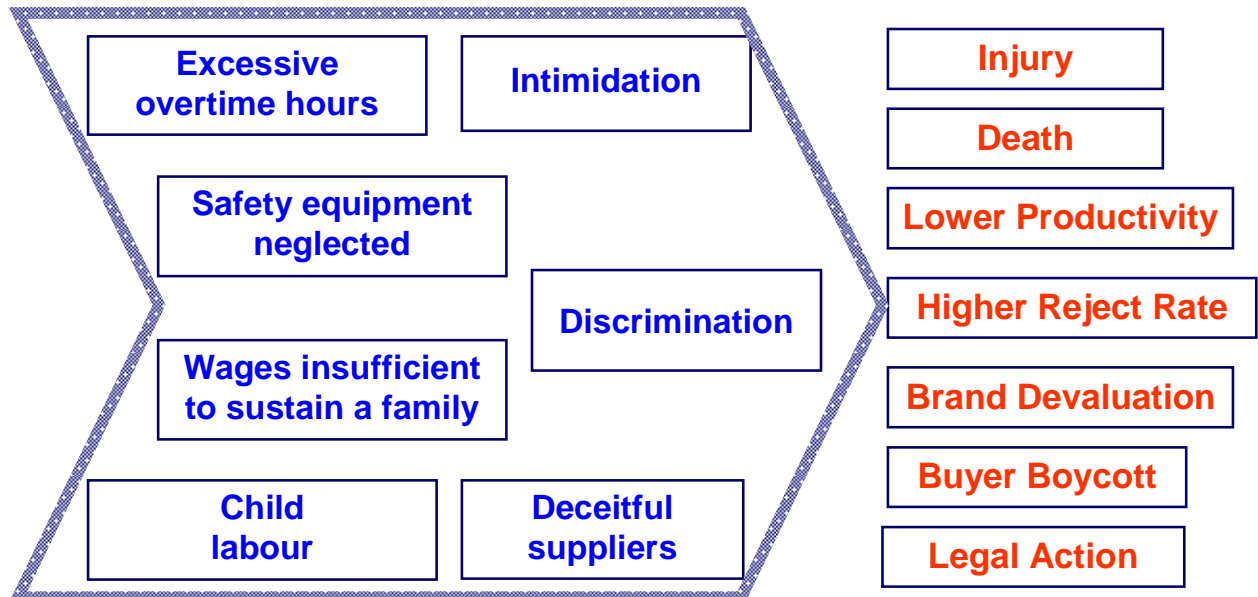
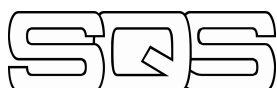


Diagram 2 Risks and Consequences – Social Factors



SOCIAL ACCOUNTABILITY – SA8000

Having understood the importance and need for socially responsible management, how does an organisation ensure that they are operating in a manner which minimizes these key business risks? The most recognized international standard for social accountability, SA8000, was established nearly a decade ago by Social Accountability International (SAI).

SAI's mission is to promote human rights for workers throughout the world. They operate an accreditation system to qualify certification bodies to deliver SA8000 assessment services.

The SA8000 standard (Social Accountability 8000) is based on the principles of international workplace norms contained within the ILO (International Labour Organisation) conventions, UN's Universal Declaration of Human Rights and the Convention on the Rights of the Child. The fundamental focus of SA8000 is to improve working conditions around the world. This intent has pioneered the way forward for organisations to improve and demonstrate their corporate social responsibility (CSR) with regards to basic human rights in the workplace.

Essentially, SA8000 is a standard for the improvement of working conditions; promoting ethical and fair treatment of workers. A standard was considered necessary for consistency and transparency of requirements, allowing subsequent verification of compliance. The requirements of SA8000 intend to ensure that workers are respected; avoiding policies and work practices that violate basic human rights.

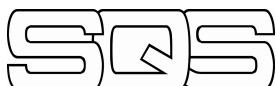
The Development of SA8000 was based on existing world conventions and also incorporate fairness principles.

World Conventions:

- Freedom of association & collective bargaining
- Freedom from forced labor
- Abolition of child labor
- Freedom from discrimination

Fairness:

- Provisions for a basic living wage
- Definition of long working hours
- Health and safety in the workplace



WHY NOW?

Compared to the other two pillars of the triple bottom-line sustainability concept (ie economic & environmental), social accountability considerations are relatively new for most organisations. The recent need to standardize suitable working conditions has been promulgated in part by globalization.

Globalization has resulted in:

- Greater expansion of markets
- Job shifts from developed to developing countries
- Competition between countries to be low-cost producers and attract investors

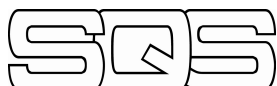
The resulting impact of these on work practices has been substantial, particularly in regions where local controls are absent, ineffective or apathetic to basic human rights in the workplace.

An Example – Child Labour

It is easier to comprehend the need for social accountability by illustrating the business risks and potential consequences associated with an example; child labour for instance.

Statistics available from UNICEF indicate some alarming concerns in relation to the prevalence of child labour:

- **Asia Pacific region**
127.3 million child workers (aged 5-14 years old)
- **Sub-Saharan Africa**
29% of children (under 15) are sent to work
- **Latin America**
17.4 million child workers
- **Industrialised & transition economies**
In contrast to most perceptions, the problem is not limited to developing countries (which are attractive to investors seeking low-cost production options). UNICEF estimates that there are also 2.5 million children working in industrial and transition economies



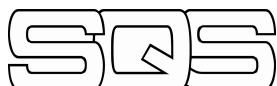
THE NEED FOR CREDIBILITY

Organisations may be confident that they are suitably addressing human rights in their workplace and throughout their supply chain. But is this enough? External verification of such compliance is becoming more commonplace.

The logical next step for organisations taking the initiative to implement systems to ensure ethical management practices is to measure their perception of compliance to a globally recognized benchmark such as SA8000. Certification to this Standard provides an effective testament to an organisation's compliance to ethical practices. Alternatives such as one-off external attestations focus on the status quo rather than systemic and ongoing compliance. This credibility comes with an "expiry date". Self declarations on this subject are even less convincing.

Benefits of SA8000 certification through IQNet Ltd

IQNet Ltd is recognized as the largest certification network and is accredited by Social Accountability International to provide global SA8000 certification. Through its network, IQNet Ltd is deploying qualified auditing resources, proficient in regional labour laws and local languages. These are particularly critical for SA8000 assessments which incorporate a substantial amount of worker interviews.



HUMAN RIGHTS AT WORK – MAKING THE COMMITMENT

All workers have the right to safe, fair and equitable basic conditions in the workplace. Given the business risks and the seriousness of their potential consequences, organisations cannot afford to ignore them in their overall risk management strategies.

Certification to SA8000 provides a win-win scenario for organisations and their workers, with credibility and transparency for all related stakeholders. SQS and IQNet can provide further information on SA8000 assessment and certification services. Please forward your enquires to:

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- The IQNet Partner in Switzerland
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